Briefing Note

No. 65 – June 2014

European Centre for Development Policy Management

ecdpm

Implementing African Development Initiatives:

Opportunities and challenges to securing alternative financing for the Agenda 2063

Sahra El Fassi and Faten Aggad[1]

Key messages

There is recognition within Africa that the continent needs to tap into its own wealth to finance its development agendas, most notably the African Union's Agenda 2063.

Significant efforts have been made to map the untapped alternative sources of financing from within Africa. These show that significant resources could be raised from within Africa, enough to cover about 70% of the development financing needs.

A range of issues related directly to financing (accessibility, feasibility, costs, etc.) need to be addressed. However, there is a need to take a step back and refocus the discussion around financing from a 'demand-driven' to a 'supply-driven' debate around the questions of *incentives, political buy-in and ownership* to be able to turn 'potential' sources into 'accessible' sources.

[1] The authors are grateful to Jan Vanheukelom, Bruce Byiers, Sebastian Grosse-Puppendahl, Isabelle Ramdoo, Gabila Nubong, Florian Krätke, James Mackie and San Bilal for their comments on an earlier draft of this paper.

1. Introduction

The African Union Commission (AUC), under the leadership of Madame Dlamini-Zuma, has put Africa's responsibility for its own development back under the spotlight with the Agenda 2063. This new African development framework is meant to provide a vision of where Africa should be in 50 years. The vision will be implemented through consecutive 10-year Action Plans that are meant to provide more concrete guidance for the AU, Regional Economic Communities (RECs), African countries, the private sector as well as civil society. Several consultations have taken place in the run up to the formulation of the Agenda. These are captured in the draft document[2], which is most likely to be adopted at the African Union (AU) Summit in Addis Ababa in January 2015.

But as the Agenda 2063 document asks, "what strategies should Africa pursue to encourage domestic[3] resource mobilization to finance its development?" In order to find viable means to implement the action plans of Agenda 2063 at country or regional level, it is crucial to look at the reasons for which past continental initiatives had limited success. For example, when the New Partnership for Africa's Development (NEPAD) was launched, it was welcomed from all quarters. It was meant to provide a guiding framework that would shape the agenda for the continent's development for years to follow. Quickly however, enthusiasm dwindled as the initiative faced financial and strategic challenges that would hinder its implementation. Among the several stumbling blocks[4] faced by NEPAD before it underwent reform in 2010 was its inability to raise funds domestically to leverage external support. As a result, progress with implementation depended on the availability of external resources. As noted by a 2007 paper by the United Nations Economic Commission for Africa (UNECA), this situation dis-incentivised countries that relied on external funding from implementing NEPAD programs which were not aligned with what was funded. The paper noted that "[this] situation creates an incentive problem for the implementation of NEPAD, further complicated by the fact that some programmes in RECs and member States are financed by external donors whose priorities differ from NEPAD's, or who are already committed to other kinds of projects, or have not yet shifted under emerging policies. In such circumstances, NEPAD priorities are likely to take a back seat to those of the sponsors." [5] As Africa readies to launch the ambitious framework that Agenda 2063 is, there is recognition at different levels that there is a need to address the financing question and provide more independence in the choice of priorities.[6]

As a result, a number of initiatives were launched to promote a reflection on how Africa, its States and financial institutions can finance the continent's development. Several studies on the available pools of funding have been undertaken, notably by the AU's NEPAD Planning and Implementation Agency (NPCA), the United Nations Economic Commission for Africa (UNECA), the African Development Bank (AfDB), the High Level Panel on Alternative Sources of Financing the African Union chaired by H.E. Olusegun Obasanjo and the Mbeki High Level Panel on Illicit Financial Flows (IFF) that operates with the technical support of UNECA and the AUC.

The studies show significant progress on Africa's own reflections on how it can generate alternative sources of financing[7] its development. They provide a base for further reflection by identifying the different possible domestic[8] sources, which could be tapped into to raise new funding and help achieve greater financial independence from international resources such, as donor funding.

2 Agenda 2063 Draft Framework (2013).
3 'Domestic' is hereby used loosely to refer to resources that could be raised by African actors.
4 At its inception NEPAD faced significant challenges including structure of NEPAD itself, lack of African ownership, political factors, and economic and capacity constraints, less-than-strong linkages between the different components of NEPAD. Source: Challenges and Prospects to the Implementation of NEPAD, UNECA (2007).
5 Challenges and Prospects to the Implementation of NEPAD, UNECA (2007).
6 Outcomes of the Bahir Dar ministerial retreat of the executive council on agenda 2063. African Union (2014).
7 This paper understands alternative sources of financing as current and potential funds that African governments (taxes), institutions, the private sector or individuals (remittances) are already generating or could generate for the development of the continent. Those funds are complementary to official development assistance and other international financing for development. Included are however funds that have so far escaped Africa such as illicit financial flows or those potentially gained by debt relief.
8 'Domestic' is used in a broad sense to refer to resources that could be generated through a better exploitation of resources at the disposal of African actors, for instance through the establishment of the appropriate mechanisms to prevent illicit financial flows, taxation, etc.

To help translate these potential sources into arteries of funding in concrete terms, further reflection is needed. Besides an African Development Bank (AfDB) study on the use of foreign reserves[9] to bridge the infrastructure financing gap or another by the World Bank and the AfDB on the need to transform *Africa's Infrastructure*[10]*,* most studies do not go far enough in addressing the fundamental factors that drive stakeholders' (un)willingness to contribute resources they control to regional or continental initiatives.

This issues paper first provides a mapping of Africa's resources for development. In a second step it will **question some of the assumptions associated with the discussion on financing**. Indeed, the briefing note is written conscious of the fact that the **mobilisation of funds alone is not the issue**. While there is potential of financing, the real challenge lies in developing an institutional fabric and strong and trustworthy mechanisms that would allow the entities in charge to implement Agenda 2063 and its Action Plans, tapping into available funds and receive a return on their investment.

Given the complexity of such issues and the brevity of this paper, it should be understood in its aim to give an *inducement* to more in-depth thinking and discussions. The paper is also limited by the fact that the Action Plans that would operationalise the Agenda 2063 are not yet ready to allow for a more specific discussion geared towards identifying opportunities *ex ante*. Nonetheless, the paper notes that there are several past experiences on the continent which can provide valuable insights into the question of financing beyond a narrow focus on resources i.e. looking at how processes incentivise or dis-incentivise financing. Under that perspective a follow-up note will be developed looking more in detail into implementation efforts of existing continental strategies[11] – some of which are used in this paper for illustrative purposes – in order to isolate some of the key incentives and disincentives that drive commitment to financing.

[9] Holding Excess Foreign Reserves Versus Infrastructure Finance: What Should Africa Do? C. Mbeng Mezui & U. Duru. African Development Bank. (2013).

[10] Africa's Infrastructure. A Time for Transformation V. Foster and C. Briceno-Garmendia. WB/AfDB (2010).

[11] These include the Lagos Plan of Action, the African Peer Review Mechanism (APRM) national plans of action, the New Partnership for Africa's Development (NEPAD) and the Comprehensive African Agricultural Development Programme (CAADP).

2. In brief: What is the Agenda 2063?

Agenda 2063 is an overarching strategic framework for Africa over the next 50 years. Developed by the AUC through a series of regional consultations with civil society and institutions, Agenda 2063 is touted as "a global strategy to optimise the use of Africa's resources for the benefit of all Africans".[12] The Agenda focuses on seven (7) so-called 'aspirations'[13] of where Africa wants to be by 2063. To achieve these aspirations, a number of 'strategic initiatives' will be undertaken. These will focus mainly on industrialisation, building human capital, a stronger push of regional integration especially through the strengthening of regional institutions, agricultural development, stronger management of natural resources, continued efforts to reduce conflicts and the promotion of common African positions.

The Agenda 2063 will be implemented through successive 10-year national action plans (see Annex 1)**.** These will need to translate the Agenda's recognition that the levels of development and progress may differ, and the goals of Agenda 2063 should adapt from country to country with policies that are feasible to implement. The Agenda therefore aims to build in some flexibility and allow member states and the regions to define the "optimum combination of policies and strategies to reach the goals and milestones proposed".[14] However, The challenge now lies in thoroughly defining these targets. First and foremost, this process will be about including the pertinent stakeholders into the consulting and drafting exercise of such continental implementation strategies. The next step consists of linking these continental development plans to the already existing national development plans. This needs to be supported with an adequate monitoring tool to track progress and be adjust as needed.[15]

As noted in the introduction, past experience has shown the limits of relying solely on external funding to implement development agendas. The Agenda 2063 document itself recognises that the experience of the New Partnership for Africa's Development (NEPAD) shows the limits of such an approach. Ensuring the effective implementation of the Agenda 2063 Action Plans will therefore depend on access to resources that finance both the capacity and functioning of administrative institutions and the implementation of the programmes they run. The design of the Action Plans, as currently conceived[16], will not only need to take into account the broad spectrum of sectors to be covered but also the adequate functioning of the institutions that will implement them at different levels such as the AUC and regional and national structures.

12 Agenda 2063 Vision and Priorities (2014).

13 These are: A prosperous Africa based on inclusive growth and sustainable development; An integrated continent, politically united, based on the ideals of Pan Africanism; An Africa of good governance, respect for human rights, justice and the rule of law; A peaceful and secure Africa; An Africa with a strong cultural identity, values and ethics; An Africa whose development is people-driven, especially relying on the potential offered by its youth and women; and Africa as a strong, resilient and influential global player and partners.

14 Agenda 2063: The Future We Want for Africa. African Union Commission (2014).

15 ECDPM is currently looking at these issues and we aim to publish the outcome of our analysis in a forthcoming issues paper.

16 The implementation modalities are subject to evolution. This paper is based on knowledge gathered as per May 2014.

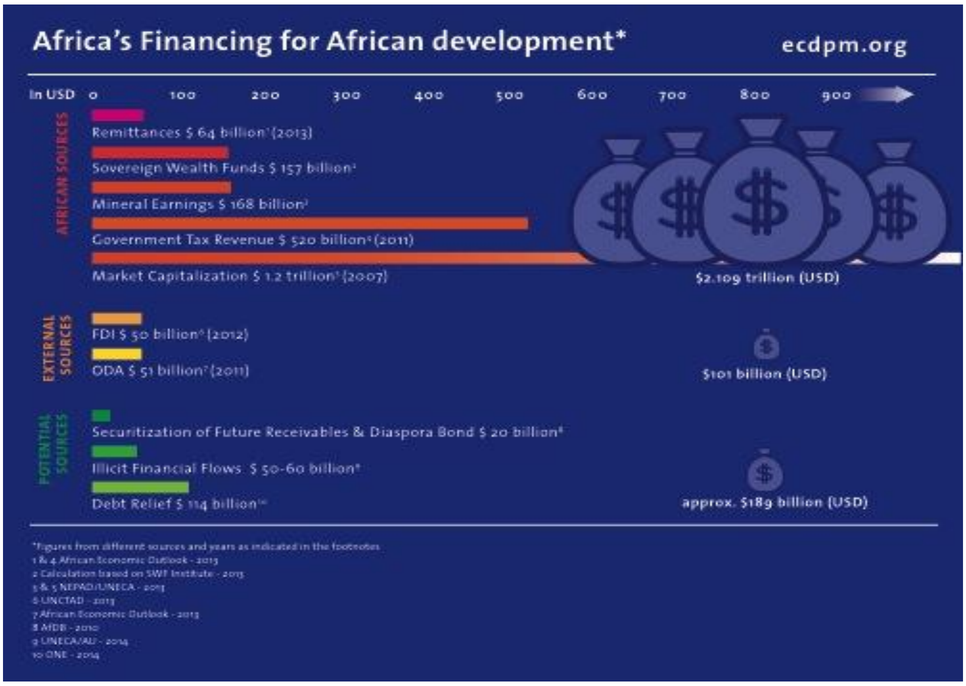
3. Mapping Africa's untapped financing potential

The continent's unexploited potential for financing development is confirmed by a number of studies. These have revealed a broad range of resources available in Africa as well as possible mechanisms and instruments through which such funding could be channelled. The following section is written in consideration of the fact that the amount of potential financial resources as well as of financing needs are estimates that are often tenuous and vary widely depending on the source. The mapping can therefore only provide an approximate overview of the resources and accompanying mechanisms and instruments that have already been identified.

The following available or potential resources have been identified on the basis of a series of studies (see Figure 1 and Annex 2 for more details).

- The continent generates more than **US$ 520 billion** annually from domestic taxes;
- Africa earns more than **US$ 168 billion** annually from minerals and mineral fuels;
- Africans countries hold more than **US$ 400 billion** in international reserves in their respective Central/Reserve Banks;
- Stock Market capitalization rose from **US$ 300 billion** in 1996 to **US$ 1.2 trillion** in 2007;
- Some ten African countries have established Sovereign Wealth Funds (SWF) with an estimated value of around **US$ 160 billion**.

Figure 1: overview of the identified potential sources of financing in Africa



Through partnership with international actors to set up adequate frameworks and mechanisms, African countries can potentially raise additional funds, including:

- African diaspora remittances climbed to **US$ 64 billion** in 2013[17] and have the potential to generate some additional **US$ 10 billion** annually through securitization and rise up to US$20billion when including diaspora bonds;
- Further potential funds could be generated by debt relief measures that could amount to **US$ 114 billion**;
- The curtailing of IFFs could make some **US$ 50-60 billion** available for development, which has so far been lost to the continent.

[17] External financial flows and tax revenues for Africa. AfDB, OECD, UNDP (2014).

4. Mobilising the resources: Easier said than done?

Africa is wealthy but there are a number of challenges in tapping into the resources highlighted above. Without wanting to be exhaustive, this section highlights some of the challenges associated with mobilising the resources and points to the need to further investigate both the feasibility of the options as well as the conditions under which they could be mobilised. The first set of challenges relates to the practical difficulties associated with the mobilisation of some of the mapped resources. The second set of challenges relates to a more fundamental questioning of the political economy that underpins the discussion on financing.

4.1. The practicalities associated with the mobilisation of financial resources

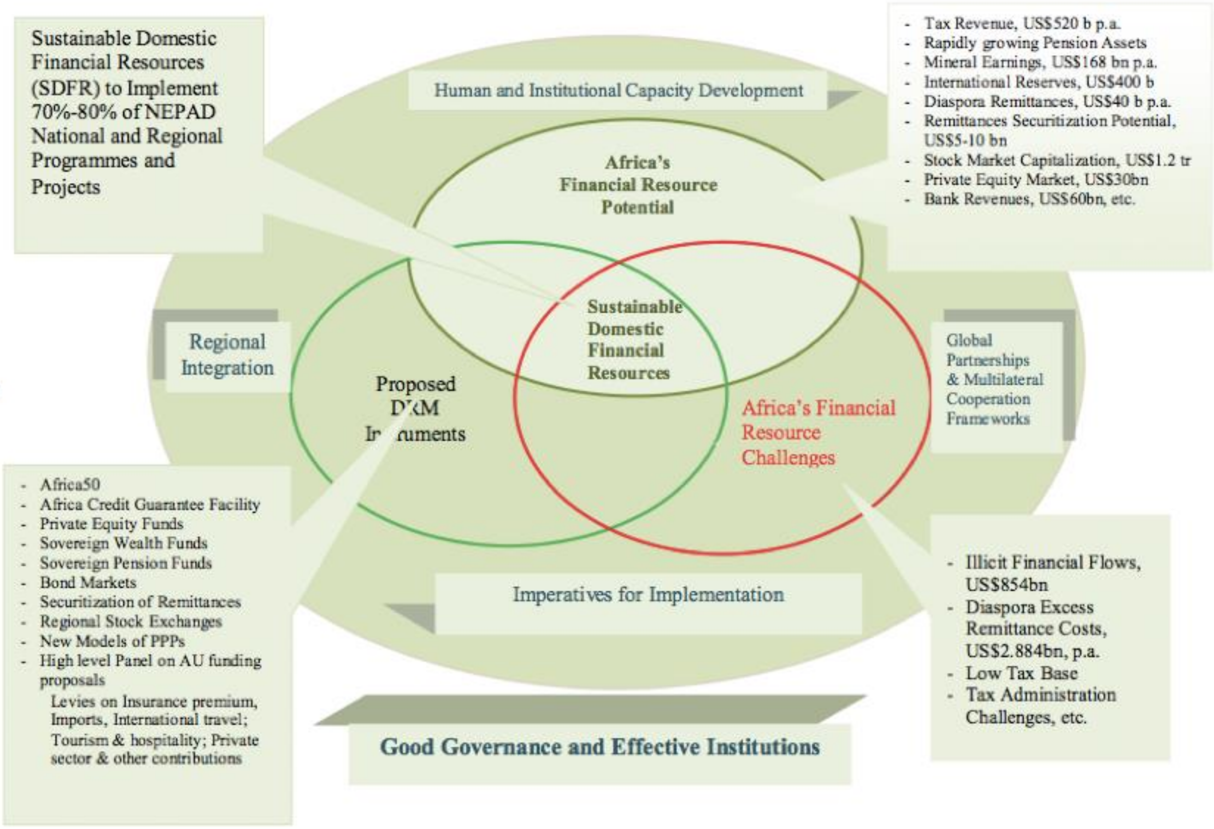
A 2014 report on "Mobilising Domestic Financial Resources" commissioned by the NEPAD Planning and Coordinating Agency (NPCA) and UN Economic Commission for Africa (UNECA) assessed the fundamentals that exist for Africa in raising more domestic financial resources to implement a substantial part of its development plans. What is needed are innovative instruments to be deployed and supported by appropriate means of implementation. Strong and sustained commitment to good governance, effective institutions and a responsive policy framework are also needed and these need to be combined with enhanced awareness and involvement of the continent's relevant stakeholders, especially the private sector. Consciousness among Africans of the continent's needs for its own development need to be heightened.

To facilitate the use of the funds, the report identifies a handful of possible instruments (see summary in Figure 2). Such instruments include the recently launched Africa 50 Infrastructure Fund or the African Credit Guarantee Facility (ACGF). **However, not all of these so-called instruments mentioned in the figure can necessarily be considered instruments in the sense that they are trustworthy mechanisms where potential creditors would be willing to invest their money**. In order to become relevant instruments in the pursuit of both development goals and a potential return on investments, more thought and analysis needs to be put into finding out how to create them in a sustainable way. In the light of several proposals being put forward to create **new institutions**, such as an African Monetary Fund (AMF), there is a need to invest considerably in implementing strong, reliable, transparent and responsible frameworks. A number of lessons could be drawn from the rich body of available literature such as the study by the World Bank (WB) and the AfDB which notes that "[t]he challenge of establishing new public institutions in developing countries is often underestimated."[18]

The ability to mobilise adequate and predictable resources from African sources at minimum cost and in a predictable manner is also not a given*.* For instance, some resources such as those resulting from countering IFFs will require a number of **structural issues** to be overhauled. To take full benefit of others, such as remittances, successful mobilization and provision of such resources will depend on negotiations with financial institutions to able to introduce new mechanisms that maximise the benefits for recipient countries and provide incentives for African diaspora to use them. So far, efforts to establish adequate regulatory systems to allow access to these resources have had mixed results. Similarly, creating an air ticket tax also comes with its own practical challenges that do not only apply to the impact such taxes can have on the competitiveness of African airliners[19] but also to the limiting regulatory frameworks that allow such measures to be introduced.[20] There are also other **global systemic issues** that will have an impact on the sourcing of some of the resources, one example being the external shocks of exchange rates and their impact on the use of foreign currency reserves. So what does this mean for adequate planning of revenue to ensure that the implementation is not halted?

[18] Africa's Infrastructure. A Time for Transformation V. Foster and C. Briceno-Garmendia. WB/AfDB (2010).
[19] In 2014 Africa was the only region that saw a decline in demand for transport.
[20] i.e. competition policies, agreements with the International Air Transport association (IATA) etc.

Figure 2: Mobilising African Financial Resources - An Overview of possible sources, mechanisms and instruments



Source: NPCA & UNECA (2014)

In order to find some relevant answers, there is need to look more purposefully at past and current experiences with domestic resource mobilisation in African countries. These experiences and lessons are under-utilised, and in analysing them we could look at the following questions, albeit not an exhaustive list:

1. What are the structural issues to be addressed to allow for the mobilisation of such resources? Are there examples where there were successfully addressed?
2. At what level could measures to address the structural issues be introduced?
3. Who are the key actors who hold the key to change?

Such exercises are useful in clarifying what can be mobilised in the short-term and what measures are required to fully tap into Africa's financial potential in the long-term. We also recognise that i**ntroducing such measures is not automatic unless more fundamental questions are addressed.**

4.2. Is it only about the money?

Reacting to an earlier draft of the Obasanjo Report on Alternative Sources of Financing for the African Union (AU), Namibia's President Hifikepunye Pohamba noted: "With respect to the levy on tourism and hospitality, I should hasten to point out that Namibia is still developing her industry to operate profitably and at international standards. I am of the view that putting levies to the tourism and hospitality industry would frustrate our on-going efforts and would have negative effects on it." In March 2014, African Ministers of Economy and Finance have rejected an adapted version of the proposal that suggested levying US$2 on hotel room and US$10 per plane ticket in order to finance the AU.

Such reaction speaks to the issue of incentives that ultimately encourage or discourage actors from resourcing regional and continental initiatives. Commitment to regional integration, as a political aspiration, is in itself insufficient to garner the needed financial support. Unless actors see 'what's in it for them' commitment to financing Pan-African initiatives will be limited. **There is therefore a need to turn the narrative around – looking at the issue of financing from a largely 'demand-driven' discussion (i.e. how to tap into Africa's riches?) to one that is 'supply-driven' (i.e. what is being offered to incentivise actors to provide financing?).** Supply can come in different forms. It is about the incentives provided to those who have the power to mobilise the resources.

Ideally, the discussion on financing should evolve into a bargaining process where countries that commit some of their resources (i.e. from their tourism revenues) could get guarantees on a *quid pro quo* basis (i.e. better road connectivity to support their tourism sector, ICT, etc.). This can be used to a build an argument around **return on investments,** which could also be used to justify decisions to finance continental initiatives to local constituencies. Providing such incentives in a context where progress with integration varies by region is admittedly not self-evident. This also requires setting a financing framework that provides enough space to create such incentives.

Past experiences in Africa demonstrate that the process through which national plans were designed in fact acted as disincentives. Two examples are used to illustrate this point:

- A 2007 study by UNECA noted that "NEPAD's dependence on countries and on RECs to implement policies and programmes means that these entities have to align their policies, budgets, and development plans with those of NEPAD. However, countries may have plans that are inconsistent with NEPAD principles and may not have mechanisms in place. NEPAD should provide appropriate incentives for countries and RECs to change their plans."[21]

- Similar conclusions were highlighted in an independent study on the National Programmes of Action (NPoAs) of the African Peer Review Mechanism (APRM). The study offered that "unless the APRM successfully merges the different reform initiatives – PRSPs, Medium Term Expenditure Frameworks, National Development Strategies etc. – it runs the risk of further complicating the development process in that country."[22] As a result the APRM NPoAs were often seen as one of the many other (politically less relevant) exercises rather than a tool for transformation.

An adequate process, driven by key actors in designing relevant regionally inspired national plans with enough traction to implement them and potentially fund them, is therefore critical. Such process can provide the **space neded for the actors to articulate their expectations (from an incentives-perspective)** from initiatives such as Agenda 2063 in an open manner around different dimensions of an 'incentives wheel', as illustrated in Figure 3.

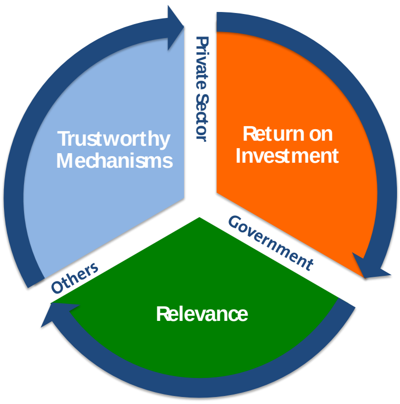


Figure 3: The Incentives Wheel

5. Conclusion

This paper aimed at i) providing an overview of the different financing sources that Africa could tap into to finance its initiatives and ii) looking at the issue of financing with a critical lens by highlighting the need to go beyond a 'demand-side' narrative. So far, much effort on access to financing for African development has focussed on the kind of mechanisms needed to channel the resources. Yet, other elements (as shown in Figure 3) also need to be addressed.

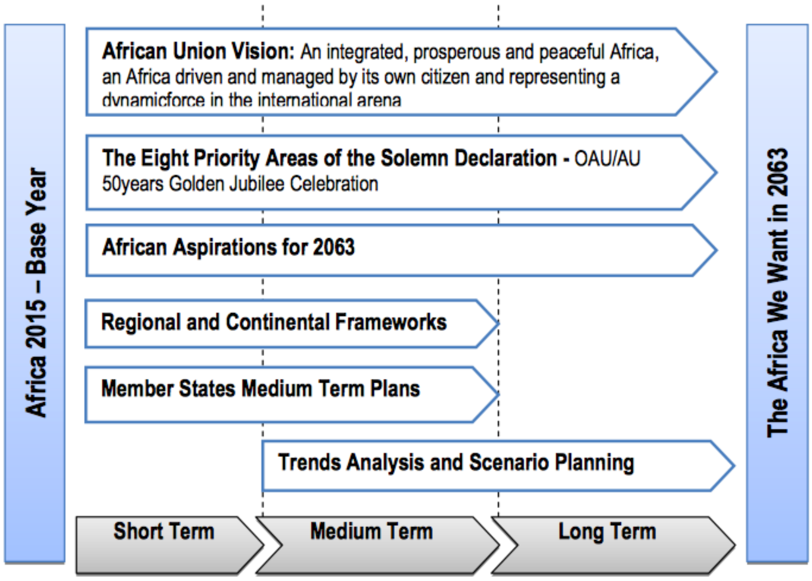
There is a need to move beyond just identifying and developing *trustworthy* mechanisms and to look into their relevance as well as returns on investments. What the briefing note highlights is the **need to create a process that provides space to take a step back and consider the opportunities through which the more fundamental challenges to domestic financing could be adequately addressed. Discussions around the design of the Action Plans offer an entry point to do this**. The process through which such

[21] Challenges and Prospects to the Implementation of NEPAD, UNECA (2007).
[22] Addressing the African Peer Review Mechanism's Programmes of Action. F. Aggad. The South African Institute of International Affairs (SAIIA) (2008).

discussions take place need to be carefully designed to guide a discussion on the drivers and incentives to implement the Agenda 2063. In this respect, in a follow up briefing note, the authors will be looking to the salient characteristics that such processes should involve. This will be largely informed by past experiences in Africa over the last 20 years.

Annexes

Annex 1: The building blocks of the Agenda 2063



Annex 2: How much can each possible source of financing generate?

Taxation

In 2011, African government tax revenue reached a record of US$ 513 billion[23] while nominal aid volumes to Africa amounted to US$ 51.2 billion.[24] In most African countries today government revenue per capita has overhauled aid per capita by far and only eight African countries continue to receive more aid per capita than tax per capita. If Africa was a single country, it would have risen, in 2011, ten times more tax revenue per citizen than aid.[25] (cf. figure 4).

This does not mean that Africa has ceased facing challenges in raising tax revenues or that the taxation systems are fair and efficient. Large tax revenues emanate from energy and resource taxes (as opposed to direct, indirect and trade taxes that have almost remained the same) and have risen considerably since the early 2000s with energy taxes having more than doubled.[26] For the time being many African countries are confronted with large informal sectors that escape tax collection, inefficient taxation of extractive industries and the inability to fight transfer-pricing abuses by multinational enterprises. Efficient tax administration systems combined with public trust in the Government that would spend these taxes on basic needs would allow African countries to raise domestic resources from taxes more efficiently and sustainably.

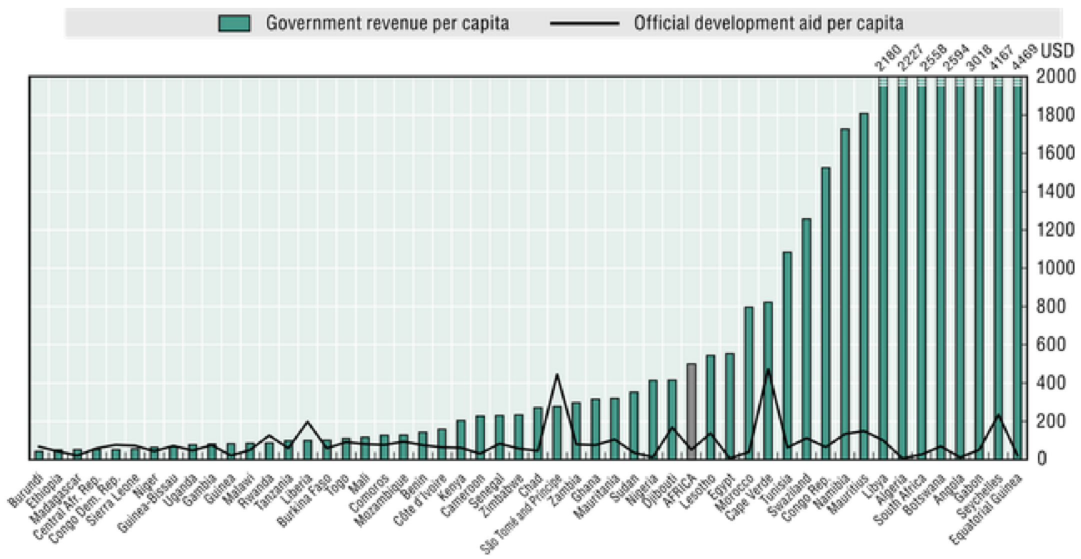
Incentives need to be created, in particular for resource-rich countries, to pursue more politically demanding forms of taxation. These could take the form of corporate income taxes, personal income taxes or value added taxes.[27] Country experiences in Africa have shown that if countries want to increase tax revenue further they should not rely on increasing the tax rate. Rather, they should focus on expanding the

23 African Economic Outlook 2014. AfDB, OECD Development Centre, UNDP (2014).
24 Ibid.
25 Ibid.
26 Ibid.
27 Ibid.

tax base, improving tax administration, and tapping relatively underutilised sources of taxation such as property and environmental taxes. The establishment of independent tax agencies to address issue of tax administration capacity has already been successful in a number of countries.[28]

Figure 4

Figure 2.09 Aid and government revenue per capita in Africa in 2011



Note: "Government revenue" includes: direct taxes, indirect taxes, trade taxes, other taxes and non-tax revenue.

Source: Authors' calculations, based on OECD/DAC, IMF's World Economic Outlook and African Economic Outlook country surveys, 2013.

Remittances

In 2012, for the first time remittances became the largest external financial source to Africa, ahead of FDI and ODA. In sub-Saharan Africa an estimated 13% of remittances come from other African countries (AfDB). They amounted to US$ 60.4 billion compared with US$ 56.9 billion in 2011 (World Bank, 2012b). This is a record for the third year running, following the 2009 global financial crisis. In 2013, recorded remittances to Africa are projected to increase by 6% to US$ 64 billion[29]

The African Union (AU) has also developed the African Institute for Remittances (AIR) project, working with support from the World Bank and European Commission, as well as the AfDB and the International Organisation for Migration. The broad objective of the project is to involve a wide spectrum of stakeholders in Africa and the diaspora in a discourse on how remittances are sent and used in Africa. The project engages in activities such as: providing technical assistance to government institutions that receive remittances in Africa (central banks and ministries etc.); providing training and capacity-building programmes for institutions that deal with remittances; study remittance flows with African countries; conduct and facilitate research; create platforms and partnerships between African central banks and remittance service providers[30]. This can be seen as a mechanism of the AU that helps to direct funds from the diaspora for African development.

The economic development potential of remittances to Africa are numerous, and as the Nigerian Speaker of the House of Representatives Hon. Aminu Tambuwal mentioned, besides lifting the standards of living in African countries like Nigeria, the diaspora should also be encouraged to invest in emerging industries in Nigeria[31]. The same could be said for other African countries where the diaspora could play a critical role

[28] Mobilizing Domestic Financial Resources for Implementing NEPAD National and Regional Programmes & Projects. NEPAD (2013).
[29] External financial flows and tax revenues for Africa. AfDB, OECD, UNDP (2014).
[30] African Institute for Remittances (AIR) Project. African Union.
[31] Africa: Diaspora Remittances to Africa Hits U.S.$60 Billion. AllAfrica. O. Nzeshi (2013).

in Africa intra-investments. The idea for harnessing remittances and the diaspora for industrialisation in Africa is widely shared; there is a rising trend in considering investments in land, construction and small enterprises from the diaspora that can contribute to sustainable growth.

Domestic Savings

Private domestic savings in Africa are considered low and the continent lacks banking infrastructure. This is partly due to the large informal sector whose transactions do not pass through the formal banking system as a result of inadequate incentives for low incomes earners to use formal banking. This is combined with high minimum deposits and balance requirements, low rates paid on savings accounts and average deposit rates that are less than one third of average lending rates. As the African private sector is investing in government debt instruments (39 African countries are issuing treasury bills; 27 are offering treasury bonds) there is the prospect of a rapid growth in bond markets while mobilising savings through the banking sector will need incentives.[32]

African Direct Investment (ADI)

African countries are becoming aware of the investment opportunities on their own continent and besides the FDI that Africa receives from European and Asian countries, African countries are looking to invest in other African countries as well. Between 2003 and 2011, intra-African investment grew by 23% at an annual compound rate according to Ernst & Young. South Africa has been the biggest contributor in ADI, having companies like MTN and Shoprite expanding further north. Kenya and Nigeria are also major contributors, having private companies, individuals and Nigerian and Kenyan banks expanding across the continent. Major players in ADI are pension funds in Africa, despite the need for updating their asset allocation regulations. Sub-Saharan Africa's biggest pension funds could increase to US$ 622 billion by 2020 and US$ 7.5 trillion by 2050. Certainly, South Africa's Government Employees pension fund and Namibia's Government institutions pension fund are seen to have keen investment opportunities on the continent [33].

In 2012, South Africa invested more new FDI projects in Africa than any other country in the world and Ernst and Young's 2013 Attractiveness Survey found that South Africa has created approximately 46,000 jobs in Africa through FDI since 2003 [34].

Capital Market

In addition to financial resources from the banking sector, revenues from taxation and pension funds, other sources from which domestic resources can be mobilised are national and regional stock exchanges. Twenty national and one regional stock exchange are currently active on the continent. Market capitalisation is growing. Between 1996 and 2007, it rose from US$ 300 billion to US$ 1.2 trillion. Yet, the stock market is still at an early stage of development in Africa. The Johannesburg Stock Exchange is Africa's most advanced stock market and ranks as one of the top 20 globally. The availability of long-term development finance will benefit a great deal from the emergence of robust capital markets, which include stock and bond markets.

Sovereign Wealth Funds (SWFs)

African SWFs could enhance productivity and spur intra-African investment through allocating part of their assets to growing sectors in Africa. For instance, the newly launched Angolan SWF is designed to target investments in Sub-Saharan Africa primarily in infrastructure and hospitality sectors. Other Sub-Saharan African sectors targeted by the Angolan Fund include agriculture, water, power generation and transport. Thus, African SWFs may benefit from the growth potential of African countries, which offer significant wealth creation opportunities.

SWFs are generally oriented towards investments in global financial markets rather than in emerging or developing countries. However, African countries can use their own SWF assets to invest in domestic companies to boost growth and to create jobs through spurring the role of the private sector. African SWFs may position themselves beyond the objective of macroeconomic stabilisation and focus on maximization

[32] Mobilizing Domestic Financial Resources for Implementing NEPAD National and Regional Programmes & Projects. NEPAD (2013).
[33] Africa investment – From FDI to AIA: Africans investing in Africa. Reuters (2013).
[34] SA business is blooming in Africa. Mail&Guardian. T. Holmes (2013).

of investments and returns, especially in domestic assets. Moreover, SWFs can indirectly foster the private sector by supporting sound fiscal and monetary policies. This can prompt a fiscal-friendly environment for private sector companies.[35]

Home grown SWFs can be beneficial for African nations if they are used and structured properly in order to take advantage of their full potential. This implies that African SWFs, at least most of them, would have to go beyond their stabilization and macroeconomic stability motives to position themselves as instruments geared towards achieving economic growth, intergenerational resource transfers, infrastructure financing, financial sector stabilisation and broadening, and regional integration..[36]

Illicit Financial Flows (IFF)

Illicit financial flows (IFFs) from the continent reached US$ 854 billion over the period 1970 to 2008. If curtailed, such flows are financial resources that will be available for the implementation of national and regional development programmes and projects.[37] Illicit financial flows reduce the foreign exchange reserves of countries by reducing tax collection and cancelling out investment inflows. Some estimates show that as much as US$ 50 billion in illicit flows from Africa occur every year. UNECA Communications officer, Ms. Sampa Kanga-Wilkie mentioned that illicit financial flows need to be targeted as a way of sourcing more funding for development programs. This would require African governments to be more engaged at the international level to overcome this challenge. In order for the regional programme strategy developed by the High-level panel on illicit financial flows (chaired by former South African President Thabo Mbeki) to be effective, several conditions are required to be met: Political will from African leaders; assurance that stakeholders are committed to the findings and recommendations of the programme; and the need to table important issues with stakeholders and civil society organisations for them to execute the programme. Greater transparency in banking systems and firms is also a challenge to be overcome if illicit financial flows are to be monitored properly.[38]

ECDPM Briefing Notes
ECDPM Briefing Notes present policy findings and advice, prepared and disseminated by Centre staff in response to specific requests by its partners. The aim is to stimulate broader reflection and debate on key policy questions relating to EU external action, with a focus on relations with countries in the South.
This publication benefits from structural support by ECDPM's following partners: The Netherlands, Belgium, Finland, Ireland, Luxemburg, Portugal, Sweden, Switzerland, Austria and the United Kingdom.

info@ecdpm.org
www.ecdpm.org
KvK 41077447

HEAD OFFICE
SIÈGE
Onze Lieve Vrouweplein 21
6211 HE Maastricht
The Netherlands *Pays Bas*
Tel +31 (0)43 350 29 00
Fax +31 (0)43 350 29 02

BRUSSELS OFFICE
BUREAU DE BRUXELLES
Rue Archimède 5
1000 Brussels *Bruxelles*
Belgium Belgique
Tel +32 (0)2 237 43 10
Fax +32 (0)2 237 43 19

European Centre for Development Policy Management
ecdpm

[35] The Boom in African Sovereign Wealth Funds. AfDB. M. Ncube (2013).
[36] Africa's Quest for Dvelopment: Can Sovereign Wealth Funds help? AfDB Group. T. Triki and I. Faye (2011).
[37] Mobilizing Domestic Financial Resources for Implementing NEPAD National and Regional Programmes & Projects. NEPAD (2013).
[38] The State of Governance in Africa: the Dimension of Illicit Financial Flows as a Governance Challenge. United Nations (2013).